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RESUMPTION, 4

# The Currency and the Banks.

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ADDRESS

OF

GEORGE S. COE, Esq.,

PRESIDENT OF THE

AMERICAN EXCHANGE NATIONAL BANK,

NEW YORK,

AT THE

ANNUAL CONVENTION

OF THE

American Bankers' Association,

At Saratoga, August 7th, 1879.

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# ADDRESS OF MR. GEORGE S. COE,

President of the American Exchange Bank, New York.

*Mr. President and Gentlemen of the Convention :*

I consent to take this position to-day in order to develop in this assembly a general discussion upon the admirable paper of Mr. Knox, and I think an association of bankers such as I see before me, ought not to disperse without expressing their sentiments on the subject upon which the Comptroller has so ably addressed us. If he is right, we should say so in our own way, and if he is wrong, let us deliberately and without hesitation say so. He has stated in very happy terms the effect of resumption, and we have to congratulate ourselves and the country that we have reached, after long expectation, the period of specie payments.

## **Have we really Resumed and how ?**

The question now is, have we resumed all the conditions which properly belong to the country in a time of perfect restoration ? Are we restored to all the healthful relations of sound commerce ? Or is this only an accidental, a temporary, or partial resumption ? Any person now having legal tender notes in possession may go to the Treasury and obtain for them gold. That is a fact, and a very happy fact. But the reason for it is, that the last seven years, as the Comptroller has happily said, have been years of plenty. They have filled the land with abundance, and turned the balance of commercial exchanges in favor of the United States to the enormous sum of nearly one thousand millions of dollars. We are so replenished with riches, that we do not take the long coveted gold now that we can obtain it. This great change comes not because of any new conditions in the policy of the Government. As the war left the country in respect to its currency so it now remains. And the reason, therefore, for resumption, is the happy general commercial prosperity which has returned, and not because of any measures adopted by the Government. It would be a singular fact if, after a war of such unexampled severity, in which financial expedients of novel and extraordinary character were resorted to, we should find the financial situation to be in perfect harmony with all sound economic conditions. It surely would be a marvellous state of things if financial order should spring out of civil discord and chaos. Let us look at the simple facts.

## **Is it a Sound and Permanent Resumption ?**

Before the war the banks of the United States were the holders of the reserve coin of the country and the sole issuers of its currency. At present the Treasury is such custodian. It divides with banks the current issues, and all the banks, as well as the people, seem perfectly content to have it so. To permit the Government to be the sole cash keeper of commerce, and the banks to use as their reserve the notes of the Government, upon which they rely for obtaining the coin whenever commerce requires it, unmindful of the fact that coin so situated is most exposed to commercial alternations,—is that the condition which we desire to have perpetuated ? is that the best possible financial system for the country. This is the question, I think, to which we should now earnestly address ourselves. Let us examine it. This country, as I said before, has had a credit balance of trade of nearly one thousand millions, the aggregate gain of the last six years, and all the signs of the times point to a gradual transfer of commercial empire from the Old World to the



New. [Applause.] It is perfectly plain to every one who reads, that it can only be a few years before New York and not London will become the financial centre of the world. [Applause.] Already the change is apparent by our calling home nearly all our own bonds, and ceasing to be borrowers abroad. It is more apparent by our negotiating bonds of Canada and some other foreign securities, showing that we have capital for ourselves in abundance, and some excess for other countries. Already you perceive a relative decline in the fertility of the land, and in the industrial resources of England. Already you see an almost incredible growth in this country of all productions and wealth, and from present appearances, it cannot be more than twenty years before we shall have attained the commercial supremacy. If that be so, it becomes us as bankers and as citizens to look carefully at the question. Are we upon a sound financial basis at present, and is it such a basis as, with such high expectations, we wish to perpetuate? Is it such a basis as will best promote the social growth for which we are ambitious?

### Two Kinds of Currency.

At present the bank notes of all the National Banks rest upon other notes, for which it is assumed we can obtain coin if wanted. Now, what is the use of that superfluity and complication in the financial machinery? It would be a very illogical arrangement, if we had to make it anew, that one note should rest upon another note, and that note upon something else. If this plan be a sound one, as I said before, it is very illogical. The fact is, gentlemen, it is not a sound one, and we all know it is not; therefore, we might as well confront the question honestly and fairly now. One or the other of these two classes of circulating notes ought to be superseded. There is no evading that conclusion, if we honestly bring our minds to the subject. If the bank notes now rest upon other notes, and those again upon a reserve of coin, particularly exposed to the vicissitudes of foreign trade, why not dispense with one class of the circulating notes, and let them all be of the same issue? There ought to be something, gentlemen, in the nature of the two things which is essentially different, or else we must absolutely abolish either the one or the other. Which kind is the fittest to survive? Let us see.

### Which is the Best Kind?

During the last year the exports of the United States were some seven hundred millions, and the imports some four hundred and fifty millions. The difference was between two hundred and fifty and three hundred millions, and it has been so for two or three years in succession. The property represented in those large sums did not pass by means of money. There was almost no money used in it. What was the operation? Ships sailing to and fro upon the ocean, carried great cargoes of the various productions of the United States, and brought back in return the products of every other clime. By what means were those large changes of property effected? By simple pieces of paper, not in any sense money, but by instruments which we call *Bills of Exchange*. These great changes were chiefly promoted by a class of citizens most useful, important, and, in fact, indispensable, called *bankers*. Those bankers became, from time to time, the custodians of all this merchandise, by means of those bills representing and controlling it. Their special service in the human economy is to distribute and exchange property.

### What is all True Currency made of? 1st, International Currency.

Now, it is perfectly clear that such bills of exchange are the currency of the world. They constitute the currency of the larger denominations by which the world's wholesale business is transacted. That we all know. But what does that

currency rest upon ? What gives it value, and by what means is it secured ? Upon the ships, upon the cargoes which go to and fro, and against which the bills are drawn. If any of you require a bill of exchange, and wish to know of a surety that it is true and genuine, and absolutely guaranteed to be so, you will say to the gentleman who comes to negotiate it : “ I am not certain that you have shipped a cargo against which you draw this bill, and in order to secure your fidelity I demand that you give me a bill of lading of the goods shipped. This I will attach to the bill of exchange to which the transaction belongs.” That is the basis of the whole operation. In other words, some form of useful industry constitutes the sum and substance, not only of that paper, but also of the whole world’s commerce, and thus business continually goes on, not by the use of money, but by goods exchanged among mankind, which are useful and necessary for human life. Such bills of exchange are really the world’s currency ; but without the shipments, the currency would be good for nothing. They are the essential ingredients out of which the bills are composed, and the goods must thus pass, or else the bills are not genuine. Now, suppose the Governments of the United States and Great Britain were to make a treaty, permitting the issue of Government bills, without the shipment of any goods whatever. What would be the effect of them upon the world’s industry ? Suppose the United States were to issue three hundred and forty-six millions of bills upon London (that being the amount of currency issued by the Government at home), and not ship a dollar of property ? Is it not very manifest that the people of this country who used them would draw, through the world’s commerce, that amount of the labor and industry from the people on that side of the water, without giving them anything from this side in return. They would disarrange the whole world’s affairs, and disturb all the relations among men and nations. There is nothing plainer than that.

And suppose that the United States should say : “ This bill is perfectly good ; because when it becomes due, another will be given of the same sort to pay it with.” Then what becomes of the balance of the exchange between the two nations ? It seems, therefore, practically a most false, ruinous, and absurd assumption of power in Government, not possessing industrial powers, to create commercial instruments, whose vital essence and virtue must, in the very nature of things, be wanting. Neither the Government of the United States nor any other Government can legitimately issue this kind of currency, unless it be endued with power from on High to create the goods out of which alone any true currency can be made. To perform this omnipotent act, Government must possess omnipotent powers, and, as Mr. John Bright said recently in the discussion of a kindred subject : “ Here is where the omnipotence of human government utterly fails.”

#### 2d, Home Currency.

Having thus shown the operation of currency for international trade, let me make another illustration for the home market. The other day, with the President of this Association, I went into the New York Clearing House, and while there the morning exchanges between banks was going on. We saw pass through the hands of the bank messengers, within the space of about ten minutes, pieces of paper called *bank checks*, representing eighty-seven millions of dollars. These eighty-seven millions—what were they ? The exchange of industrial property and things, which had occurred in the City of New York, through all the banks the day before. There was not a dollar of money to be seen in all this, but after those exchanges were made up there appeared to be two classes of banks ; one a creditor class, which had given more property than they had received, and the other was a debtor class, which



had given less, and the difference between those two classes was some five millions of dollars, which sum had subsequently to be paid in money. That was all the actual money needed for that great transaction.

Now, the same suggestion I made a moment ago, I now make in respect to these *instruments of internal commerce*. The checks and papers passed between those banks were internal currency, and they, like the foreign exchanges, were based upon the actual transactions pressing through banks, and by them through their dealers, the community at large, the day before. And I now state this is an undeniable axiom. You cannot make a paper honestly representing value unless it actually passes property from one person to the other for the full value represented, and such is the case with every legitimate note or obligation issued by a sound bank. If that be true, the essential superiority of bank currency over the Government issues must be apparent.

### Why Government cannot make Sound Currency.

This seems to me to be a statement in exact science that cannot be denied. Now, whence comes industry? It is the personal, individual act of every man. Government has no function for it whatever. It has no capacity for production, distribution or exchange of industry. It cannot, therefore, furnish genuine credentials of labor. If it forces its currency devices into business the intrusion can only produce derangement of all honest labor, first, last and always. It cannot create capital. It has power to borrow it from its producers, and when it borrows, it borrows like an individual, by paying an annuity to the owner for the use of it. A paper that passes as money value, without passing at the same time, the real material of which it is composed, is just as absurd as a coin without any metal in it. *Coin or money of the world's standard passes property of intrinsic value in itself. Genuine paper currency of every kind, must pass property, concurrently with itself, and of the money value expressed.*

One more illustration from private life. Two boys meet in the street and swap jackknives. One of the articles is worth two dollars and the other one dollar; the balance of trade is against the one and in favor of the other. Now, that creditor boy is an American citizen, and after parting with his property he has a right to claim a full dollar in return. That right he has acquired by virtue of his being a human being, entitled "to his life, to his liberty, and to his pursuit of happiness," which means his property; and no government can fairly deprive him of either without giving him a full equivalent. To be sure, in case of war, the nation may take them all, by taking the boy himself. It is a duty which every one owes to his country, to hold himself in readiness thus to be sacrificed on the altar of patriotism. But war having ended, and the Government having returned to its normal condition, the boy again becomes free, and is entitled to all his rights and privileges, which cannot by any constitutional government be taken from him. It is the glory of law to extend this protection to the humblest citizen. To interpose a paper instrument, compulsorily, in a trade between him and his fellow, which deprives him of the possession of his dollar, is an abridgment of his liberty and property. And it seems strange that this free American nation should claim the right to do that which would not be permitted by despotic power. That, however, is the practical result of legal tender currency, by which the boy is compelled to take that for his property which does not immediately convey to him a dollar's worth of property in return.

These three illustrations seem sufficient to show the nature and practical opera-

tion of true currency, and why it is beyond the power of Government to furnish the genuine article.

They also show the folly and absurdity of all those estimates so often made, of the amount of currency required for the business of the country, and which are sometimes carried so far as to prescribe the exact sum needed per capita of population, regardless of their special industrial conditions. This is like gathering together a large number of vehicles or railroad cars in a given locality, to move a desired crop not produced, or of providing ships pro rata of inhabitants to transport a commerce which is hoped for but does not exist. All such calculations of the power of currency to create business are only misconceptions of its nature, and place the consequence before the cause.

#### **Why Government Currency should be Retired.**

The Government of the United States have, it is true, now provided for its currency issues a small proportion of the value which they purport to convey. Why should they not provide for the whole, and retire from a business for which they have no competency? Is there any reason in the nature of things why they should not? On the contrary, does not every commercial instinct imperatively demand it? The war is over. These currency devices were born in poverty and in the nation's extremity and supposed inability to borrow capital. Since then this thousand millions of new capital has come in, and offers itself to the Government upon the lowest terms.

All the natural rights which belong to men in society are now re-established, and we rightly say to Government "You cannot longer interpose either your fiction for a dollar, or a deficit dollar, because we are free citizens; and as such we reclaim our privileges, only temporarily surrendered, to go everywhere and anywhere with our property, unabated by Government interference. To abate, or diminish it, excepting by the imposition of just taxes, is an infringement of natural right which American citizens must repel with patriotic ardor." And such being the case, why can we not restore the conditions that existed before the war? Why should not the Government perfect that which it has begun, and leave commerce to itself? There has been already gathered into the Treasury forty per cent. of industry per hundred, of that which professes, but does not represent industry. Why should not the remedial process go on until we have entirely cleared away these relics of the great conflict, and converted those exceptional financial instruments of war, into the plough-shares and the pruning-hooks of peaceful industry? We have all seen the baneful effects of continuing the use of an expanding currency. We all know that until the beneficent panic of 1873 occurred, we were financially under a centrifugal force which was sending this great Nation to destruction as fast as possible. That event, sometimes regarded as a misfortune, was in the highest degree remedial. It was the natural development of previously existing commercial disease. It awoke the Nation from its delirium and reinstated it upon the track of sound industry and providence, and it has resulted in since turning the balance of exchanges in favor of this country, as I have already stated, about a thousand millions of dollars.

It seems now the order of Providence, against which we may not rebel, that commerce should resume its normal conditions. Incoming resources provide abundant means. Is there anything in the peculiar financial conditions that should prevent it? On the contrary, do we not by permitting the continuance of Government currency, cherish the germ which like an epidemic lies latent during the winter, ready to break out again into fever upon the approach of the hot season? It is a

danger which, if not removed, may again revive with the same terrific injury as before.

This is a moral as well as a financial question. It is a question that affects the welfare, and the stability of society. No man can doubt this, when he reviews the circumstances of the last ten years. It is not a mere matter of dollars and cents; it is a question of human life and destiny. These things, indissolubly united in the order of Providence, cannot be separated.

With these simple illustrations, I have said enough to show that industry is the true and only means of restoration, and will naturally and necessarily provide the best currency instruments by which wealth can be exchanged, and its results incorporated into vital forms and institutions to benefit society. As the country now starts upon a new career, shall the great West, the granary of the world, and all other sections of the land now teeming with surplus property ready for exportation—shall they be permitted freely to exchange their productions for the wealth of the Old World upon equal terms? Or shall there be needlessly interposed an obstacle created by war, unknown or unrecognized in other nations with which we exchange, and which renders the financial results of all this industry variable and uncertain.

Commerce has to do with mankind at large, and with producers and consumers irrespective of national lines. It must be apparent that any peculiar, local standard or conventional measure established by a people seeking the benefits of the largest trade, is a self-imposed impediment to their own progress. The smallest trader, producer or laborer, when he sells his property or his service, knows not but that they will enter into some great aggregate for shipment abroad. And if they do not, their value is favorably affected by a wider demand. The humblest laborer and the largest merchant or banker are therefore bound together by a common tie, as workers in the great human hive. They are alike interested in having the most extended commerce with the world, and also in adhering to the standard which the world most recognizes. They who aim to inject into the currency a false representative of labor, or to alter the measure by which labor is exchanged, may justly be suspected of a sinister design. They are either drones or deceivers.

#### Government and Bank Currency Compared.

In the light of this explanation, let us now, as bankers, examine the statements of the National Banks, and of the Treasury Bank, in order to test the relative merits of the two currencies.

1st. The National Banks are indebted to the public—

	Millions.
For deposits.....	823
For circulating notes.....	290
Total.....	<u>1,118</u>

They have in hand to meet this indebtedness assets as follows :

	Millions.
Loans and debts due to them.....	1,191
United States and other bonds.....	420
Coin due from Treasury.....	40
Legal tender notes.....	123
Total....	<u>1,774</u>

Showing an excess, which is *their own capital and surplus*, of 656 millions, or one hundred and fifty eight dollars of assets for every one hundred of liabilities. These assets are composed in large measure of notes secured by every form of industry produced by people in every section of the country. They are predicated upon cotton, corn, wheat, farming utensils, and upon the infinite variety of things which contribute to the life and comfort of society, and which are hourly and perpetually exchanged for other such things, among the people, through the banks. This is the service which the banks perform, and without which our advanced social life could not exist. It is a service so indispensable in the great economic system that every civilized nation of the world has found it necessary to establish and to encourage such institutions and associations as we represent. The oldest institutions in Europe are of this character. In fact, some of our own associates, still in youthful activity, are the most venerable in the land, and are older than the Government itself. The Bank of North America, in Philadelphia, was formed by Robert Morris, our Colonial Secretary. Its aim was to draw from the people their industrial resources to sustain the Revolution, and he did it. Through that instrumentality means were mainly provided to defeat Cornwallis. The Bank of New York, founded by Alexander Hamilton, is 100 years old; and the Manhattan Company Bank, inaugurated by Aaron Burr, whose able President is near me, is about the same age. Your own bank, Mr. Chairman, has been in business some 75 years; and a larger number of our more youthful institutions have existed half a century. And no sooner does any new community grow into the importance of a commercial town or city, than a bank is established to supply an obvious need. This fact of itself proves that they do a work which society demands, and that there is an intrinsic necessity for their existence. The part of the currency of these institutions which is composed of deposits and is transferred by checks, forms the medium for larger transactions, and that part which consists of bank notes is used for the the smaller. It is all alike currency, and performs substantially the same office, *the notes being the subsidiary currency*, just as pieces of metal of smaller denominations are *the subsidiary coin or money*. These notes are secured by, 1st, the capital of the bank; 2d, by the property taken by the banks and held to redeem the notes when paid out; 3d, by Government bonds of 100 cents for every 90 cents issued. They have the guarantee of Government and of the personal property of the people, each to more than their face value, as security; and, if the Comptroller continues to exercise the same fidelity which has so far eminently characterized him, these banks will be prepared at any time to hand over to their creditors, upon instant demand, either money or the money equivalent in other industrial values, such as will reimburse them in full and leave a large margin or excess, as already stated.

Now, in the same way, let us examine the Treasury Bank; it has issued:

	Millions.
Notes payable on demand.....	346
Fractional notes.....	16
Total.....	362

It has assets to meet this indebtedness—

	Millions.
Gold and silver coin and bullion.....	148
Deficit .....	214



*This bank is therefore prepared to pay to its creditors on demand forty-one cents per dollar*, but for the balance it has nothing to show. Where is this deficit sum to be found? Simply in the power of taxation. This is a power slow in its operation and utterly impracticable as an immediate resource for payment on demand. The other resource consists in the power to borrow capital. This kind of bank conducts its business upon the chances of floating a currency, wanting all sound commercial basis, under the idea that part of it only will be returned for redemption. What is that but doing by Government, as much illegitimate financiering as is possible without exposure, and resting in the confidence of being able to retire in case of need, behind its good credit as a borrower? What is it but doing by Government a kind of banking it would arrest as criminal, if done by its subjects? It must be remembered that every true note certifies to the community the ability of the country to expend the value it represents, and every false one, the more it is accredited, the more it deceives, by inviting and facilitating expenditures in excess of means, so that the very high credit of Government currency, gives it peculiar danger. Such an institution as this surely has not the qualities of a bank of last resort. If the good rules which the Comptroller applies to all National Banks should be applied to this, it must be ruled out as an unsound institution.

#### **Government should let Commerce provide its own Currency.**

If this view of the laws which underlie all commerce among men be correct, it must be seen that our better currency is resting upon the worse, that there is in that respect a complete inversion of all sound financial principles, and that what we rely upon as the reserve of Banks and the last resort for all business transactions in the United States, is really the weakest item among the commercial assets. While other portions of them are founded upon full exchangeable values, this one, the very foundation of them all, contains but forty-one per cent. of convertible worth, and, the deficiency, when demanded, must be supplied from those very commercial resources which banks represent. It is also obvious that when the balance of trade necessitates a resort to these Treasury reserves, the disturbance and exhaustion produced will render a loan by the people to the Government more difficult and uncertain. Here then is another chance to which this Treasury Bank is exposed. Is it not an undeniable fact, that while Government notes, be they more or less in amount, inevitably betray the people into extravagant expenditures, labor must finally be called in to save what has thus been lost? And even if the wasted sum be supplied by foreign loans, it is yet true, that the labor and economy of other lands will contribute to counteract the prodigality of this, and must be compensated by labor in return. So true is it that the universal law of labor is one of mutual obligation and dependence the world over. It is a law resting upon every man, and from it, even Government cannot emancipate nor absolve us.

The only security for commerce and for the country then lies in the entire withdrawal of Government from all further effort to supply a currency for the people, and from all interference with industrial exchanges. So long as such a power is recognized as within the possible functions of legislation, the industries of every citizen and his consequent happiness as well as the consequent well being and good order of society, will be subjected to the caprices of Congress. The Divine law is thus supplanted by human legislation, and nothing but discord can result.

#### **An Easy Solution of the Question.**

The practical question remains, *how can this now best be done?* The Congress that authorized the issue of the original legal tender notes never contemplated the

possibility of their continuance after the war was over, and to promote their early extinction as currency, they made every one of them convertible into a six per cent. bond. Thus inviting exchangeable capital to be supplied for them from surplus industry of this or other peoples, by imprinting upon each note the offer of a liberal annuity for a loan of its amount. Had this condition been continued, the notes would long since have ceased to exist, and the Government and people would have saved an incalculable sum, subsequently lost by waste, extravagance and prodigality, besides averting the untold misery, disappointment, wretchedness and crime, directly and indirectly traceable to the prolonged use of this new and variable medium of exchange. As originally issued, they presented an inducement for every holder to exercise his skill, industry and economy to secure to himself the offered annuity. They were earnest incentives to thrift and motives to economy, but in an evil hour this privilege was withdrawn, and the notes became like idle and unmitigated tramps, possessed with power to consume the capital of others, but rendering none in return. The option given to every holder to loan, was a continual solicitation to save. But the irredeemable, unexchangeable note, on the contrary, awakened an intense desire to expend, in order to secure for it any species of property attainable, regardless of price. This was the greatest financial blunder of the war. It cost the nation untold millions in money, and infinite demoralization. It relaxed all industry, and made us a nation of prodigals.

These great evils having been arrested by a natural reaction from their very excess, it is now the duty of every good citizen to take measures to prevent their possible recurrence, by urging a total abolition of the system out of which it grew. This can be effectually done by the simple restoration of the privilege of funding into bonds, bearing a rate of interest of the last loans made by Government. By this means the desire to save will be revived, industry will be stimulated to create the capital required, the deficit sum now entirely within the capacity of the nation, will be gradually supplied from the resources, industry and ingenuity of the people, and exchangeable values, convertible into gold or into any other form required, will fill the void now represented by Government currency, which will imperceptibly pass away. This change may be made without violence, commotion, or financial embarrassment. It will proceed in the silent order of nature, surely and effectually, affecting beneficently every good interest and injuring none. The whole nation, in every part, and every man in it, will feel the renewing influence, and there will be opened up on this broad continent a period of sound commercial prosperity such as the world has never yet seen. Why should we delay in removing forever this last vestige of war, or hesitate in reinvesting this great nation with the unrestricted powers and privileges of healthful commerce? [Applause.]





